

Management Discussion and Analysis of Financial Condition and Results of Operations



This management's discussion and analysis ("MD&A") is provided to assist readers in their assessment and understanding of the consolidated results of operations, the financial position and changes in cash flows of LMS Medical Systems Inc. ("LMS" or "the Company") for the three months ended June 30, 2008. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements as at June 30, 2008 and for the three-month period then ended and the annual audited consolidated financial statements and the notes to the financial statements of LMS as at March 31, 2008 and for the year then ended, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Note Regarding Forward-Looking Statements

Our MD&A contains forward-looking statements which reflect our Company's current expectations regarding future events. The forward-looking statements in this annual report, which includes this MD&A, describe our expectations on August 12, 2008. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "estimate", "expect" and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results and other risks, any of which could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in the industry; others are more specific to our Company. Investors should consult the "Risk Factors" section of the Company's Annual Information Form ("AIF"), as well as our Company's ongoing quarterly filings and annual reports for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. We assume no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise.

As at August 12, 2008, there were 26,342,032 common shares outstanding, and 2,464,939 options, 371,290 deferred share units ("DSUs") and 2,238,137 warrants outstanding to purchase common shares. These figures exclude shares issuable under non-cash Bonus and Deferred Share Unit plans ("DSU Plan") (note 5 of the June 30, 2008 unaudited interim consolidated financial statements and note 8 of the March 31, 2008 annual consolidated financial statements).

All dollar figures in this MD&A are in Canadian dollars unless otherwise indicated. "We", "us", "our", "the Company", "our Company" or "LMS" means LMS Medical Systems Inc. and our subsidiaries unless otherwise indicated. CALM® is a registered trademark of LMS Medical Systems Inc.

Overview

Since inception, we have been in the business of developing and commercializing a series of leading edge software-based products employed as decision support tools for obstetricians. Our proprietary software tools: CALM Clinical Information System™ ("CIS") and CALM Risk management and clinical decision support tools including: CALM Shoulder Screen™, CALM Curve™ and CALM Patterns™ address the critical unmet medical needs in labour and delivery settings. Based on advanced medical research focusing on the labour & delivery cycle, LMS' unique technology provides obstetrical teams and hospitals with state-of-the-art clinical decision support tools, assisting them in achieving clinical and cost effective interventions, while minimizing risks to the patients. Our core technology, CALM, emanated from research at the McGill University Faculty of Medicine, in Montréal, Québec, Canada, with Dr. Emily Hamilton, our VP Medical Research, as the principal investigator.

FIRST QUARTER HIGHLIGHTS:

- Revenues in the first quarter of fiscal 2009 totaled \$801,000, a decrease of 17% from \$962,000 in the first quarter of fiscal 2008.
- Included in total revenues of \$801,000 for the first quarter of fiscal 2009 are revenues of a recurring nature, totaling \$471,000, or 59% of total revenues, compared to \$314,000, or 33% for the same period in fiscal 2008.
- Total overall expenses decreased by 22% to \$2,278,000 for the three months ended June 30, 2008 from \$2,928,000 for the same period in fiscal 2008. Basic and diluted loss per share also decreased from \$0.10 per share for the first quarter of fiscal 2008 to \$0.06 per share for the first quarter of fiscal 2009.
- We increased the value of identified sales opportunities being pursued from \$31 million to \$34 million.
- Our backlog remained stable at \$3.9 million.

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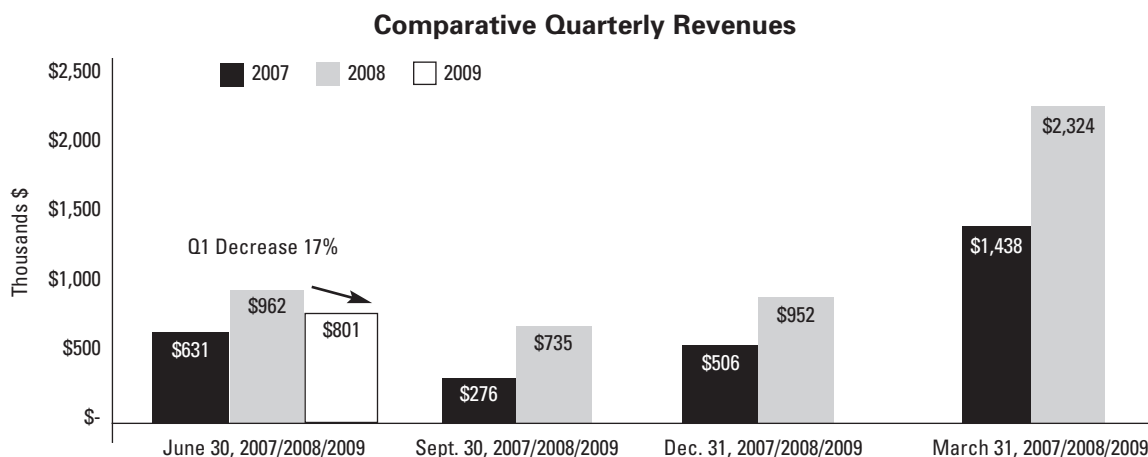
- We expanded our sales and marketing team, as we continue to concentrate on increasing our presence in the market.
- Our current total client base has grown to 98 with those additional customer commitments won during the quarter having been secured through our direct sales channel.
- We signed a contract with Premier Purchasing Partners, LP, one of the largest group purchasing organizations in the United States. Premier has awarded LMS a group contract, making us a contracted supplier for its Clinical Situational Awareness tools.
- We signed our first consulting agreement regarding our OB/Performance Excellence Program with Princeton Insurance of New Jersey.

Strategies for development

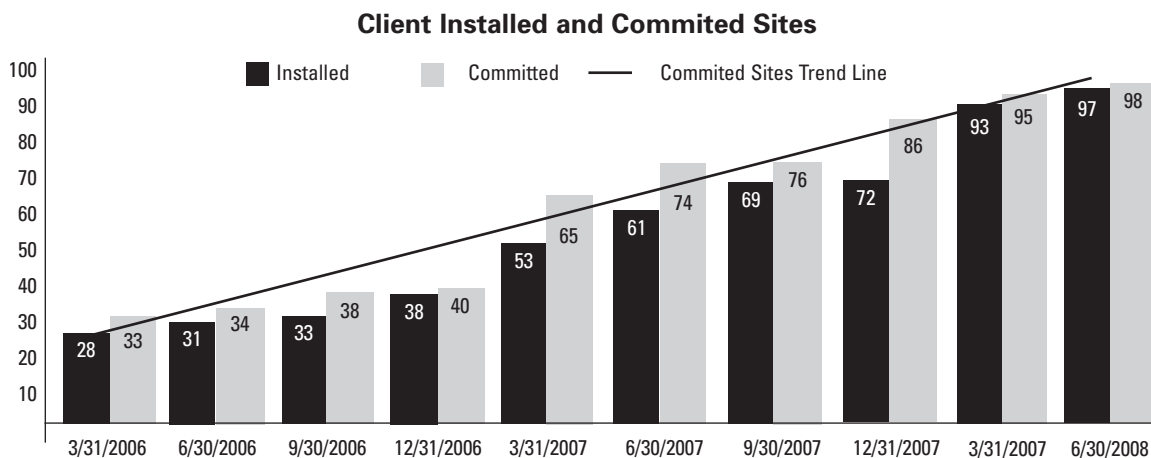
A sustained increase in our presence in the North American marketplace is expected to continue. We are focusing on the growth of our installed hospital base of our CIS through internal sales and marketing efforts. We are expanding the pipeline of our sales opportunities, by marketing our decision support tools to the insurance and risk management industry. Our decision support systems are available for distribution, as add-on features, to other parties interested in offering these new tools as part of their client offering within the clinical information systems or as stand alone products. We will focus our efforts on selling and marketing by increasing our sales force and marketing strategies.

Key Indicators

We have provided below, a historical perspective of key performance indicators for LMS. A detailed analysis is presented later in the MD&A.



Revenues in the first quarter of fiscal 2009 totaled \$801,000, a decrease of 17% from \$962,000 in the first quarter of fiscal 2008. Revenues did not meet expectations due to a delay with our distributor's software release which integrates our product. Notwithstanding lower than expected revenues, we believe this will rectify itself with the new release. The Company's sales have increased significantly on a year-to-year basis over the past three years, a trend which, based on our backlog and growing pipeline, we believe will continue.



Our committed (signed) and installed client base has grown on a consistent basis over the last ten quarters. The table above shows our committed and installed client base at the end of each period, on a cumulative basis. Client sites are defined as customers committed to use or are using one, several or all of our software products.

Going Concern

The accompanying MD&A and the unaudited interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that LMS will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

LMS is a software development company and has not generated profits since its inception. Further, there can be no assurance that LMS will achieve profitability in the future. As at June 30, 2008, the Company had a working capital and shareholders' equity deficiency. To date, LMS has financed its cash requirements primarily from software and technical support revenues, share and warrant issuances, loans payable, convertible debentures and investment tax credits. During the third quarter of fiscal 2008, we implemented a program to streamline operations to reduce operating cash expenses. During the fourth quarter of fiscal 2008, LMS obtained additional financing to fund its operations and sales activities. LMS will require additional financing to fund its operations and sales activities. In addition, LMS's continuation as a going concern is dependent upon the continuing support of its distributors, customers and shareholders, attaining a satisfactory revenue level, continued sales to its existing customers, the start of profitable operations and the ability to generate sufficient cash from operations. These matters are dependent on a number of items beyond LMS's control and there is uncertainty about LMS's ability to successfully execute its plans. The accompanying MD&A and the unaudited interim consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate should LMS not be able to continue its normal course of business.



Selected Financial Information

	For the three months ended June 30,	
	2008	2007
	\$	\$
Revenue		
Software licenses	369,816	598,040
Technical support and other	431,605	363,643
Total revenues	801,421	961,683
Royalties and other direct costs	109,282	124,176
Revenues, net of royalties and other direct costs	692,139	837,507
Operating Expenses		
Research and development expenses	481,466	839,799
Investment tax credits	(9,000)	(30,000)
Net research and development expenses	472,466	809,799
Administrative	655,362	768,625
Selling, marketing and product management	747,128	746,701
Customer support	235,304	249,799
Quality assurance	47,546	77,038
Stock option expense	90,765	103,121
Amortization of fixed assets and patents	36,649	104,156
Foreign exchange loss (gain)	(6,806)	68,270
	2,278,414	2,927,509
Operating loss	(1,586,275)	(2,090,002)
Net financial expenses (income)	2,397	(13,956)
Net loss	(1,588,672)	(2,076,046)
Basic and diluted loss per share	(0.06)	(0.10)
Cash flow related to:		
Operating activities - before net changes in non-cash operating working capital	(1,461,258)	(1,882,977)
Operating activities - after net changes in non-cash operating working capital	(1,913,845)	(170,946)
Investing activities	(28,348)	(50,074)
Financing activities	(10,029)	(7,471)
Decrease in cash and cash equivalents	(1,952,222)	(228,491)
	June 30, 2008	March 31, 2008
	\$	\$
Balance sheet data		
Cash (bank overdraft) and short term investments (see liquidity section for additional information)	(92,740)	1,859,482
Total assets	2,545,354	3,746,782
Total long-term debt (including current portion)	30,001	40,030
Total shareholders' (deficiency) equity	(1,218,854)	279,053

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Selected Quarterly Financial Information

	2009				
	Q1	Q2	Q3	Q4	Total
Revenue	801				
Operating Loss	1,586				
Net Loss	1,588				
Basic and Diluted					
Net Loss per Share	(0.06)				
	2008				
	Q1	Q2	Q3	Q4	Total
Revenue	962	735	952	2,324	4,973
Operating Loss	2,090	1,755	1,266	307	5,418
Net Loss	2,076	1,741	1,261	312	5,390
Basic and Diluted					
Net Loss per Share	(0.10)	(0.08)	(0.06)	(0.01)	(0.24)
	2007				
	Q1	Q2	Q3	Q4	Total
Revenue	631	276	506	1,438	2,851
Operating Loss	2,594	2,397	2,563	1,877	9,431
Net Loss	2,550	2,361	2,541	1,860	9,312
Basic and Diluted					
Net Loss per Share	(0.15)	(0.13)	(0.14)	(0.09)	(0.50)

Results of operations

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

Summary overview for the first quarter of fiscal 2008

Revenues for the three months ended June 30, 2008 totaled \$801,000, a decrease of 17% from \$962,000 for the three months ended June 30, 2007. Total expenses for the first quarter ended June 30, 2008 amounted to \$2,278,000 compared to \$2,928,000 for the first quarter ended June 30, 2007, a decrease of \$650,000 or 22%, which contributed to the reduction of the comparative operating loss by \$504,000 or 24%. A summary of historical information is presented below. A future anticipated expense summary is presented within the future outlook section of the MD&A.

Revenue

Revenues for the three months ended June 30, 2008 totaled \$801,000, a decrease of 17% from \$962,000 for the three months ended June 30, 2007. Software license revenue decreased 38% to \$370,000 for the first quarter of fiscal 2009 from \$598,000 for the same period of fiscal 2008. Revenues from technical support, maintenance and other services were \$432,000 for the first quarter of fiscal 2009 compared to \$364,000 in the same period of fiscal 2007, an increase of 19%. Please refer to the 'Key Indicators' section of the MD&A for explanations of the variances.

Royalties and Other Direct Costs

The expense for the three-month period ended June 30, 2008 decreased to \$109,000 compared to \$124,000 for the same period in 2008 as a result of lower sales.

Research and Development expenses

Research and development ("R&D") expenses, before investment tax credits, amounted to \$481,000 for the quarter ended June 30, 2008 compared to \$840,000 for the same period in 2008. The lower overall spending was primarily due to significant reductions in staffing and in the use of external consultants (from 26 to 13 employees and consultants), resulting from the completion of certain development projects, as well as a result of the streamlining of operations, implemented in the third quarter of fiscal 2008.

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Investment tax credits, which are accounted for as a reduction of R&D expenses, amounted to \$9,000 for the three months ended June 30, 2008 compared to \$30,000 for the same period in 2008.

Administrative

Administrative expenses include compensation for the corporate, financial and administrative management of LMS, board of directors' compensation, audit and legal fees, fees associated with being a publicly listed company, as well as general operating expenses, such as rent and insurance. Administrative expenses for the three-month period ended June 30, 2008 were \$655,000 compared to \$769,000 for the three-month period ended June 30, 2007. In the first quarter of fiscal 2008, consulting and professional fees included \$60,000 of expenses related to a special investors trip which is non-recurring.

Selling, Marketing and Product Management

Selling, marketing and product management expenses for the first quarter of fiscal 2009 and 2008 were stable at \$747,000.

Customer Support

Customer support expenses for the three-month period ended June 30, 2008 were slightly lower at \$235,000 compared to \$250,000 for the same period in fiscal 2008.

Quality Assurance

Quality assurance expenses for the quarter ended June 30, 2008 were \$48,000 compared to \$77,000 for the same period in fiscal 2008. The decrease is due to a reduction in staffing resulting from the streamlining of operations, implemented in the third quarter of fiscal 2008.

Stock Option Expense

Stock option expense for the first quarter of fiscal 2009 amounted to \$91,000 compared to \$103,000 for the first quarter of fiscal 2008. The stock option expense is amortized over three years, resulting in approximately 60%, 30% and 10% of the stock option expense being recorded in the first, second and third year, respectively, from the date of grant.

Foreign Exchange

For the three-month period ended June 30, 2008, LMS incurred a foreign exchange gain of \$7,000 compared to a foreign exchange loss of \$68,000 for the same period in fiscal 2008 resulting from the fluctuation of the US dollar against the Canadian dollar.

Operating Loss and Net Loss

After considering the above expenses, our operating loss for the first quarter ended June 30, 2008 was \$1,586,000 compared to \$2,090,000 for the same period in fiscal 2008.

We generated net interest expense of \$2,000 for the first quarter of fiscal 2009 compared to net interest income of \$14,000 in the same period of fiscal 2008, due to lower liquidities in 2009.

As a result, our net loss for the first quarter ended June 30, 2008 totalled \$1,589,000 (\$0.06 per share) compared with \$2,076,000 (\$0.10 per share) for the same period in fiscal 2008.

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Cash flows

Summary of operating position

	For the three months ended June 30,	
	2008	2007
	\$	\$
Cash flows related to operating activities		
Operating before net change in non-cash items	(1,461,258)	(1,882,977)
Net changes in non-cash operating working capital items	(452,587)	1,712,031
Cash flows related to operating activities	(1,913,845)	(170,946)

For the three months ended June 30, 2008 compared to three months ended June 30, 2007

Cash flows used in operations for the three-month period ended June 30, 2008 totalled \$1.91 million compared to \$171,000 used for the same period in fiscal 2008. In the first quarter of last year, we invoiced and collected \$2.44 million of our accounts receivable and contracts contained in our backlog, resulting in a positive net non-cash working capital of \$1.71 million.

Cash flows used in investing activities were \$28,000 for the three months ended June 30, 2008, compared to \$50,000 for the same period in fiscal 2008. The cash flows used in the three month period ended June 30, 2008 relates to \$28,000 of additions to patents (2007 - \$50,000 related to the additions of fixed assets and patents).

Cash flows used in financing activities for the three months ended June 30, 2008 were \$10,000 compared to \$7,000 in fiscal 2008, relating to payments on long-term lease obligations.

Future outlook

Management is concentrating its efforts primarily on revenue ramp up, servicing of our growing customer base, cash flow break even and profitability.

We anticipate that the revenue growth will continue due to following factors:

- Expansion of our sales team anticipated in 2009.
- Our growing presence in the marketplace is the result of sales efforts with several hospital groups, the continued success of which should drive further additional revenue opportunities.
- Increases in revenues related to the CALM Clinical Information System and our risk management tools.
- Commercial release of interoperability components for a private branded product.
- As a result of increased system sales and our growing client base, revenues from maintenance and technical support service agreements are also expected to increase commensurate with the growth of our installed base.
- Additional revenues are expected from the commercial release of CALM Patterns this year.
- New products and business alliances are being pursued to develop additional market opportunities, thereby extending the reach of our existing line of software and risk management tools.

Expense Outlook Summary

Having recently brought to market key software deliverables, we are focusing on growing market presence and product acceptance. Sales, service training and software support for our distributors and healthcare industry clients become the priority. Shifting from software development to commercialization allows for reductions in development expenses and outside consultants, yet expected increases in selling, marketing and product management expenses.

Research and Development

We expect these expenditures to decrease for fiscal 2009 due to an anticipated static headcount.

Administrative

We expect these expenses to remain constant over the coming quarters.

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Selling, Marketing and Product Management

We expect these expenditures to increase significantly as a result of anticipated hires in the sales and marketing teams and marketing activities.

Customer Support

The streamlining of operations did not affect customer support and we expect these expenditures to remain at similar levels over the coming quarters.

Quality Assurance

We expect these expenditures to decrease during fiscal 2009, as a result of certain staffing and non essential expenditure reductions.

Liquidity and capital resources

Due to the delay incurred by our distributor in launching the release of its latest version of software necessary to sell our new integrated product, we need to raise financing to fund operations for the next twelve months.

We have identified potential sources of financing, including strategic relationships and public or private sales of our Common Shares, but we do not have any committed sources of financing at this time and it is uncertain whether additional funding will be available. If funds are raised by issuing additional Common Shares, or other securities convertible into our Common Shares, the ownership interests of our existing shareholders will be diluted. If we are unable to obtain financing when required, we will not be able to carry out our business plan, including marketing and distribution initiatives. We would have to significantly limit our operations and business, and our financial condition and results of operations would be materially harmed.

From time to time, we may invest cash in liquid high-grade investment securities of Canadian Chartered banks or Canadian Government T-bills, with varying terms to maturity, taking into account operating, capital and cash-flow requirements. Any deviations from these types of investments need to be specifically authorized by the Board of Directors of LMS. LMS does not have any investments in asset backed commercial paper.

Under our contract with a distributor, we are entitled to receive amounts for contracts contained in our backlog. As at June 30, 2008, this amount, which does not qualify as a receivable under GAAP, amounted to \$907,000, representing additional future liquidity for LMS, as the deferred revenue liability related to this item is a non-cash item, which will be settled by delivery of our software products and services, in the normal course of operations.

Long-term debt and other cash obligations

As at June 30, 2008 we had no debt other than obligations under capital leases, which totalled \$30,000 and are repayable over the next 5 years.

Under a lease agreement, for our premises, ended February 2008, we were required to issue a letter of credit secured by an investment of an equivalent amount. The letter of credit was reimbursed in February 2008 upon termination of the lease. In addition, under an agreement with a bank, a \$50,000 investment is held as a security.

We lease approximately 9,300 square feet of office space in Montréal, Québec, Canada. In the fourth quarter of fiscal 2008, we renewed our lease for a term of seven months, commencing on March 1, 2008 and terminating on September 30, 2008.

Stock exchange listing requirements

As at June 30, 2008, LMS was listed on the TSX. In May 2008, the Company's Board of Directors approved the voluntary delisting from the AMEX as part of management's plan to reduce costs. The delisting was completed on May 22, 2008. On June 5, 2008, LMS filed Form 15F with the US Securities and Exchange Commission to voluntarily terminate the registration of its Common Shares under Section 12(g) of the US Securities and Exchange Act of 1934, as amended. LMS continues to meet the TSX listing requirements.

Dividends

We do not anticipate paying dividends in the next fiscal year.

Critical accounting policies and estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of financial statements by management in accordance with GAAP requires the selection of accounting policies from existing acceptable alternatives. Our critical accounting policies and estimates include the following:

Revenue recognition

Revenue consists primarily of revenue from the sales of software licenses, hardware and technical support services. LMS recognizes revenue in accordance with the provision of the American Institute of Certified Public Accountants Statement of Position (“SOP”) No. 97-2, Software Revenue Recognition.

We recognize revenue from software licenses and hardware when persuasive evidence of an arrangement exists, delivery, installation and client's acceptance have occurred, the sales price is fixed or determinable, and collection is probable.

Revenue from technical support services, which is generally paid in advance, is deferred and recognized rateably over the period for which the technical support service is provided. Other service and consulting revenues are recognized as services are provided.

Revenue on arrangements that includes multiple elements such as hardware, software licenses and technical support services is allocated to each element based on vendor specific objective evidence (“VSOE”) of the fair value of each element. Allocated revenue for each element is recognized when revenue recognition criteria have been met for each element. VSOE is determined based on the price charged when each element is sold separately. If VSOE cannot be determined, and all other revenue recognition criteria have been met, revenues from multiple element managements are recognized rateably over the period for which the technical support service is provided. When VSOE of fair value of undelivered services is established subsequent to the outset of the arrangement, the deferred revenue relating to the arrangement is adjusted to the newly established VSOE of fair value of the undelivered services.

Research and development expenses and Investment Tax Credits

Research expenses are charged against income in the year of expenditure. Development expenses are charged against income in the period of expenditure unless a development project meets the criteria under GAAP for deferral and amortization.

Amounts received or receivable resulting from government assistance programs, including grants and investment tax credits for R&D, are reflected as reductions of the cost of assets or expenses to which they relate at the time eligible expenses are incurred, provided that there is reasonable assurance that the benefits will be realized. The risks of change to estimates for investment tax credits receivable relate to the acceptance of LMS R&D investment tax claims by government authorities. The claims, which contain several R&D projects, are made on an annual basis and may take in excess of one year to be finalized and completed. In reviewing the claim, the government authorities take into consideration two primary factors in assessing the eligibility of the investment tax credit claim: (1) the technical aspects of the projects claimed must meet the specific scientific criteria and (2) the claim must contain only the eligible expenses related to projects described in the tax filings. The risk of change to the estimate relates to the fact that certain projects or expenses involve judgment and could be disallowed because of one or both of the factors identified above are not met. Any favourable or unfavourable adjustment that may result following assessment by government authorities is recorded to income in the subsequent period when such assessment is performed.

As at June 30, 2008, our investment tax credit receivables recorded amount to \$93,000 relating to our previous year claim as well as current year expected claim. To date, substantially all of our investment tax credits claimed filed and assessed by the government authorities have been accepted favourably as submitted.

Stock-based compensation plan

As a result of amendments made in October 2003 to the provisions of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, effective November 1, 2003, we changed our method of accounting for employee stock-based compensation and decided to adopt the fair value based method of accounting for all our stock-based compensation. We adopted these changes using the prospective application transitional alternative in accordance with the transitional provisions of CICA Handbook Section 3870. Accordingly, the fair value based method is applied to awards granted, modified or settled on or after November 1, 2003. Prior to the adoption of the fair value based method, LMS, as permitted by Section 3870, had chosen to continue the existing policy of recording no compensation cost on the grant of stock options to employees.

When stock options are exercised, capital stock is credited by the consideration paid together with the related portion previously credited to contributed surplus when compensation costs were charged against income. The prospective method omits the effects of awards granted, modified or settled before November 1, 2003.

We provide pro forma disclosure of the compensation costs based on the fair value method for awards granted prior to November 1, 2003 under the employee stock option plan (see note 8(iii) of the consolidated financial statements).

Stock-based compensation expense and pro forma disclosure of the stock-based compensation expense for all options granted under our stock option plans, as well as DSUs and warrants, is determined using the fair value method computed with the Black-Scholes option pricing model. The related expense is recognized over the vesting period of such options, allowing for forfeitures, estimated by management.

Income taxes

LMS follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the assets or liabilities are expected to be realized or settled. Changes in these balances are included in net earnings of the period in which they arise.

Impairment of long-lived assets

When events or changes in circumstances indicate the carrying amount of a long-lived asset or group of assets held for use, including capital assets and patents, may not be recoverable, an impairment loss is recognized when the carrying amount of those assets exceeds the sum of the undiscounted future cash flows related to them. The impairment loss is included in the statement of operations and the carrying value of the asset or group of assets is reduced to its fair value as determined by the sum of the discounted future cash flows related to those assets. The impairment loss is presented within the amortization expense of the related assets.

Changes in accounting policies

Effective April 1, 2008, LMS adopted the new recommendations of the CICA Handbook Section 1535, “Capital Disclosures,” which requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS. Expanded disclosures regarding the application of the pronouncement are made in note 7 of the June 30, 2008 unaudited interim consolidated financial statements.

The CICA Handbook issued Section 3862, “Financial Instruments - Disclosures”, which increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value; and Section 3863 “Financial Instruments - Presentation”, which replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new Section. In addition, disclosure is required of qualitative and quantitative

information about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonable possible changes in the relevant risk variable. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and accordingly, LMS adopted them in the first quarter of fiscal 2009. Expanded disclosures regarding the application of the aforementioned pronouncements are made in note 8 of the June 30, 2008 unaudited interim consolidated financial statements.

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation," has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for LMS for interim and annual financial statements beginning on or after January 1, 2008, and accordingly, LMS adopted the recommendations under this Section in the first quarter of fiscal 2009. The adoption of this Section had no impact on the unaudited interim consolidated financial statements.

New Accounting Pronouncements

Goodwill and Intangible Assets

CICA Handbook Section 3064, "Goodwill and Intangible Assets," replaces Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." It establishes financial reporting for goodwill, start up costs and other intangible assets. This standard is effective for interim and annual financial statements beginning on or after April 1, 2009. LMS is currently assessing the impact of the adoption of this standard on the consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board has a strategic plan for financial reporting in Canada whereby Canadian GAAP will converge with International Financial Reporting Standards ("IFRS") over the period ending December 31, 2011. After this transitional period, the Company will cease to use Canadian GAAP and will adopt IFRS. The Company is monitoring this transition to IFRS and is analyzing the impact that the adoption of IFRS will have on the audited consolidated financial statements.

Evaluation of disclosure controls and procedures

As of June 30, 2008, an evaluation of the effectiveness of the issuer's disclosure controls and procedures (as such term is defined under the rules adopted by the Canadian securities regulatory authorities) was carried out by management, under the supervision of, and with the participation of, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon that evaluation, the CEO and CFO concluded that as of such date, LMS's disclosure controls and procedures were effective such that information relating to LMS required to be disclosed by us in the reports which we file or submit to such regulatory authorities (a) is recorded, processed, summarized and reported within the time periods specified under applicable securities laws, and (b) is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding disclosure.

Internal controls over financial reporting

During the first quarter of the 2009 fiscal year, LMS documented and assessed the design of internal controls over financial reporting. The design of internal controls over financial reporting was evaluated and defined in Multilateral Instrument 52-109. Based on the results of this evaluation, the CEO and CFO attested that the internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that LMS's consolidated financial statements were prepared in accordance with Canadian GAAP.

Management also concluded that during the quarter ended June 30, 2008, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect those controls.

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Off-balance sheet arrangements

We do not have any off-balance sheet arrangements at June 30, 2008.

Foreign operations and foreign currency transactions

A large portion of our revenues and some of our expenses are generated in the US. The continued weakness of the US dollar has a negative effect on our revenues, offset somewhat by the expenses generated in the US.

Risk factors

For a more detailed discussion of risk factors that could materially affect our results of operations and financial condition, please refer to our AIF.

Other MD&A requirements

All relevant information related to our Company is filed, in Canada, electronically at www.sedar.com.